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C O N F I D E N T I A L BUENOS AIRES 000547

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TREASURY FOR BRIAN O'NEILL, LUYEN TRAN, MATT MALLOY

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [PREL](#) [AR](#)
SUBJECT: ARGENTINE ECONOMY MINISTER MARTIN LOUSTEAU RESIGNS
ON KIRCHNERS' REJECTION OF ANTI-INFLATION POLICIES

REF: A. BUENOS AIRES 227
[1](#)B. BUENOS AIRES 188
[1](#)C. '07 BUENOS AIRES 2271

Classified By: Charge D'Affaires Thomas P. Kelly Reasons 1.5 (b,d)

Summary

[1](#)1. (C) Economy Minister Martin Lousteau tendered his resignation April 24 following the Kirchners' rejection of a series of orthodox anti-inflationary measures he proposed. These measures included boosting domestic prices and reducing subsidies for utilities, cutbacks in public spending on infrastructure, increases in interest rates, and a harder line on negotiated salary increases. Following Lousteau's presentation of these measures early in the day to President Cristina Fernandez de Kirchner, a public statement hours later by first husband and newly elected Peronist party president Nestor Kirchner damning "those economists who now want to cool down the economy" was widely read as an unconditional rejection of Lousteau's anti-inflation gambit. Lousteau is to be replaced by federal revenue authority director Carlos Fernandez, a career budget official with close ties to Chief of Cabinet Alberto Fernandez and to Nestor Kirchner. Lousteau's resignation was widely foreseen as part of a larger cabinet shuffle anticipated in late May. The front-loading of his departure speaks to a hardening of the Kirchners' opinion that domestic inflation can be controlled by further market interventions and that rapid consumption-led growth remains the GOA's fundamental economic priority. The naming of Lousteau's low-profile replacement does not offer much hope of a decisive GOA policy response to growing domestic economic disequilibria. End Summary.

[1](#)2. (SBU) Economy Minister Martin Lousteau presented his resignation to President Cristina Fernandez de Kirchner (CFK) the evening of Thursday, April 24 and personally reported his departure to the press later that night. Embassy contacts and local media reported that, in a meeting with CFK earlier that day, Lousteau had encouraged her to immediately adopt a series of orthodox economic initiatives to retake the initiative on controlling inflation.

Lousteau's Orthodox Anti-Inflation Proposals...

[1](#)3. (SBU) Media reports of Lousteau's proposal list a series of measures to control accelerating domestic inflation, including:

-- increases in natural gas and electricity tariffs for large and wholesale users to both reduce market price distortions and reduce GoA subsidy costs by roughly ARP 4-5 billion/year;

-- a cutback in the rate of growth of public spending, particularly on infrastructure projects, in order to sustain the primary fiscal surplus;

-- a strengthening of the GoA's anti-trust regime in large-scale industry, petrochemical, and mining sectors to encourage domestic price competition and avoid oligopolistic collusions;

-- a "normalization" of inflation statistics now grossly manipulated by national statistical agency INDEC to restore confidence in government reporting and to establish a common base for salary negotiations;

-- a commitment not to re-open already settled union salary negotiations and to use recent salary level increases as an effective ceiling for new negotiations;

-- enhanced coordination between the Central Bank and Economy Ministry on peso sterilization and an adjustment of bank reserve requirements to address inflationary pressures;

-- increased (currently net negative) domestic interest rates on time deposits to encourage savings; and

-- focusing the efforts of polemical Internal Commerce Secretary and "price czar" Moreno on monitoring and

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controlling high supermarket margins rather than seeking to control prices in other segments of the value-added chain.

¶4. (SBU) Interestingly, an additional measure reportedly proposed the short-term devaluation of the nominal exchange rate from current 3.18-3.20 levels to the 3.25-3.30 level to sustain domestic competitiveness, although this would contribute to inflationary pressures. Finally, a proposal not directly linked to inflation control was also included among the measures: the negotiation of a Paris Club rescheduling agreement over eight years, with a three-year grace period, and without IMF oversight.

¶5. (SBU) Media reports that Lousteau told the President that "these measures are, in my judgment, those we need to adopt to avoid a serious crisis. They are all known concepts that we have discussed. If we do not adopt these or other similar measures, we will move towards a crisis." He is also reported to have conditioned his continued service as Minister on CFK's rapid acceptance.

...And Nestor Kirchner's Public Rejection

¶6. (SBU) At a Peronist party gathering the afternoon of April 24, first husband and newly elected Peronist party president Nestor Kirchner took aim at unnamed economists who over the past weeks have expressed growing concerns at accelerating domestic inflation: "Those leaders who bankrupted the country (i.e., who were responsible for the 2001/2 economic crisis); those economists now want to cool down the economy, not to consume (i.e., not to promote domestic consumption), but to export everything!" Embassy contacts in independent economic consultancies and in the Economy Ministry agree that Lousteau read Kirchner's statement as an unconditional rejection of his orthodox anti-inflation proposals. He submitted his formal resignation shortly thereafter.

Carlos Fernandez: Designated Successor to Lousteau

¶7. (SBU) Local media reports that, following the failure of

Chief of Cabinet Alberto Fernandez to convince Lousteau to stay on in his position, the President, Nestor Kirchner, Alberto Fernandez, and Legal and Technical Secretary Carlos Zannini deliberated at the presidential residence over a list of successor candidates. Local contacts and media, responding to rumors of a pending cabinet shuffle, had earlier short-listed a number of prominent candidates to replace Lousteau, including Central Bank Governor Martin Redrado, National Bank of Argentina President Maria Marco del Pont, economic consultant and former advisor to President Menem Carlos Melconian, and former Economy Minister Lavagna.

18. (SBU) Instead, the recently appointed director of Argentina's federal tax authority (AFIP), Carlos Fernandez (CF), was named to the position. CF had served in the Economy Ministry from 1989-1997 under President Menem as Director of Provincial Budget coordination. In 1997, he began working for a succession of Province of Buenos Aires Governors as an Undersecretary of Political and Fiscal Coordination, returning to the federal government in 2003 under then-President Nestor Kirchner as Budget Undersecretary. CF then began serving as Acting Budget Secretary in 2006 and led GoA discussions with an IMF Article

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IV evaluation team. While long considered a protege of Chief of Cabinet Alberto Fernandez, it was during his tenure as Acting Budget Secretary that CF is said to have gained the confidence of then-President Nestor Kirchner, who called Fernandez daily to monitor GoA fiscal accounts. In 2007, CF was dispatched to become Province of Buenos Aires Economy Minister under then-Governor Sola. He was not retained by recently elected Governor Scioli. In March 2008, CF resurfaced as the replacement for Alberto Abad as the head of AFIP.

Comment: A Tragedy Foretold

19. (C) Lousteau's resignation was widely foreseen, but most expected that he would hang on until a larger cabinet shuffle took place around the May 25 five-year anniversary of Nestor Kirchner's assumption of the Presidency. The acceleration of Lousteau's departure speaks to a hardening of the Kirchners' determination to control domestic inflation through heavy-handed market intervention. It also reflects their policy preference for continued rapid domestic consumption-led growth, which the Kirchners see as the key to their political standing, over the exigencies of inflation-fighting. The naming of low-profile Carlos Fernandez as Lousteau's replacement probably means that we will see more of the same policy responses (or lack thereof) to growing domestic economic disequilibria.

10. (C) The longer a CFK administration takes to address growing economic disequilibria, the more costly -- economically and politically -- their correction will be. CFK began her presidency four-and-a-half months ago at an economically precarious moment. With uncertainty and risk aversion on the rise internationally, the Argentine economy toed the downslope of domestic GDP growth trends, and growth-sustaining private investment remained constrained by concerns over the economic policy environment. CFK's appointment of Lousteau in November 2007 (Ref C) was an encouraging indication that she would allow the technically capable economist to face these challenges. In the end, that did not happen. Lousteau never had free rein to do the right things, and he leaves office with no greater accomplishment than having left the Kirchner government of his own volition before being cast aside.

11. (C) Lousteau is the second Economy Minister who has departed after losing an intra-GoA dispute over inflation policy. His predecessor under President Nestor Kirchner, Miguel Peirano, declined to stand as a candidate to be CFK's Economy Minister because he felt it impossible to serve effectively so long as control over GoA market interventions

and inflation calculations were ceded to independent Internal Commerce Secretary Guillermo Moreno. Both Lousteau and Peirano's departures reflect an ongoing internal debate over the need for -- and the efficacy of -- pervasive GoA intervention in domestic markets. Moreno advocates expanded control of consumer prices and continued GoA manipulation of statistics, while Lousteau and Peirano were more attuned to the need to rebuild the GoA's domestic and international credibility.

¶12. (C) The Kirchners appear to want it both ways, with yet another Economy Minister dutifully presenting the GoA's interventionist economic policies in their best light to the international financial and investor community, while Moreno continues to serve as the CFK administration's in-house enforcer, presenting to CFK's lower middle class base a GoA that is fighting inflation by standing up to profit-hungry business interests. Given CFK's recent public support of Moreno during and after the agricultural strike, many see this as the most likely outcome, with Nestor Kirchner continuing to pull economic policy levers behind the scenes.

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